

Éco Entreprises Québec
Financial Statements
(In thousands of dollars)
For the year ended December 31, 2018

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(In thousands of dollars)
For the year ended December 31, 2018

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Independent Auditor's Report

To the Members of Éco Entreprises Québec

Opinion

We have audited the financial statements of Éco Entreprises Québec, which comprise the statement of financial position as at December 31, 2018, and the statements of income, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Éco Entreprises Québec as at December 31, 2018, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the summary financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



Independent Auditor's Report

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Independent Auditor's Report

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada s.r.l./S.E.N.C.R.L./LLP¹

Montréal, Québec
March 15, 2019

¹ CPA auditor, CA, public accountancy permit No. A113666

Éco Entreprises Québec
Statement of Financial Position
(In thousands of dollars)

December 31	2018	2017
Assets		
Current		
Cash	\$ 80,669	\$ 8,202
Temporary investments (Notes 2 et 6)	51,218	142,394
Accounts receivable (Note 3)	24,776	29,932
Prepaid expenses	74	80
	156,737	180,608
Non-current		
Capital assets (Note 4)	742	196
Intangible assets (Note 5)	81	134
	\$ 157,560	\$ 180,938
Liabilities and Net Assets		
Current		
Due to RECYC-QUÉBEC (Note 7)	\$ 109,121	\$ 136,522
Accounts payable (Note 8)	6,050	5,773
Commitments payable (Note 9)	162	930
Deferred contributions - Programs (Note 10)	692	-
	116,025	143,225
Non-current		
Lease inducements	154	31
	116,179	143,256
Net assets		
Temporary Funds	12,861	8,907
Permanent Funds	8,385	8,419
Invested in Capital Assets	823	330
Internally Restricted Funds	18,213	19,220
Unrestricted	1,099	806
	41,381	37,682
	\$ 157,560	\$ 180,938

Contractual Obligations (Note 14)

Contingencies (Note 16)

On behalf of the Board

_____ Director

_____ Director

Éco Entreprises Québec
Statement of Income
(In thousands of dollars)

For the year ended December 31	2018	2017
Revenue		
Corporate contributions - Schedules (Note 11)	\$ 146,902	\$ 151,833
Other revenue - (Note 12)	1,891	2,005
	148,793	153,838
Expenses		
Schedule expenses		
Municipal compensation (Note 7)	131,612	133,915
Allowance paid to RECYC-QUÉBEC (Note 7)	2,599	2,614
Uncollectable contributions	1,974	135
Operating expenses	579	551
	136,764	137,215
Administration costs	5,142	4,456
Curbside recycling optimization	3,188	7,772
	145,094	149,443
Excess of revenue over expenses for the year	\$ 3,699	\$ 4,395

Éco Entreprises Québec
Statement of Changes in Net Assets
(In thousands of dollars)

For the year ended December 31, 2018

	Temporary Funds (Note 13)	Permanent Funds (Note 13)	Invested in Capital Assets	Internally Restricted funds	Unrestricted	Total
Balance, beginning of year	\$ 8,907	\$ 8,419	\$ 330	\$ 19,220	\$ 806	\$ 37,682
Excess (deficiency) of revenue over expenses for the year	3,954	(1,834)	(203)	(2,187)	3,969	3,699
Investment in capital assets	-	-	696	-	(696)	-
Internal restrictions (Note 13)	-	1,800	-	1,180	(2,980)	-
Balance, end of year	\$ 12,861	\$ 8,385	\$ 823	\$ 18,213	\$ 1,099	\$ 41,381

The accompanying notes are an integral part of these financial statements.

Éco Entreprises Québec
Statement of Changes in Net Assets
(In thousands of dollars)

For the year ended December 31, 2017

	Temporary Funds (Note 13)	Permanent Funds (Note 13)	Invested in Capital Assets	Internally Restricted Funds	Unrestricted	Total
Balance, beginning of year	\$ 213	\$ 16,536	\$ 360	\$ 15,448	\$ 730	\$ 33,287
Allocation to Permanent Funds (2014 Schedule)	3,184	(3,184)	-	-	-	-
Excess (deficiency) of revenue over expenses for the year	5,510	(4,533)	(173)	(1,543)	5,134	4,395
Investment in capital assets	-	-	143	-	(143)	-
Internal restrictions (Note 13)	-	(400)	-	5,315	(4,915)	-
Balance, end of year	\$ 8,907	\$ 8,419	\$ 330	\$ 19,220	\$ 806	\$ 37,682

The accompanying notes are an integral part of these financial statements.

Éco Entreprises Québec
Statement of Cash Flows
(In thousands of dollars)

For the year ended December 31	2018	2017
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 3,699	\$ 4,395
Items not affecting cash		
Amortization of capital assets	123	74
Amortization of intangible assets	80	99
	3,902	4,568
Changes in non-cash working capital items		
Accounts receivable	5,156	136,005
Prepaid expenses	6	(14)
Deposits in collateral	-	2,226
Due to RECYC-QUÉBEC	(27,401)	(31,881)
Accounts payable	277	4,941
Commitments payable	(768)	(3,004)
	(18,828)	112,841
Cash flows from investing activities		
Acquisition of capital assets	(669)	(91)
Acquisition of intangible assets	(27)	(52)
Disposal of temporary investments	172,290	34,011
Acquisition of temporary investments	(81,114)	(141,545)
	90,480	(107,677)
Cash flows from financing activities		
Variance in deferred contributions	692	(81)
Lease inducements	123	31
	815	(50)
Increase in cash during the year	72,467	5,114
Cash, beginning of year	8,202	3,088
Cash, end of year	\$ 80,669	\$ 8,202

The accompanying notes are an integral part of these financial statements.

Éco Entreprises Québec
Notes to Financial Statements
(In thousands of dollars for tables only)

December 31, 2018

1. Significant Accounting Policies

**Incorporation and
Nature of Business**

The organization was incorporated on April 30, 2003 pursuant to Part III of the *Companies Act* (Quebec), and its main activity, as a not-for-profit organization for the purposes of protecting the environment, consists in grouping the enterprises subject to the *Environment Quality Act* (LQE) (the "companies"), and acting as an approved organization within the meaning of the Act. The organization operates in Québec and is exempt of income taxes.

The mission of the organization consists in developing a Schedule of contributions (the "Schedule and its application rules") submitting it to companies, adopting it, and seeking approval from the Government of Québec. Finally, with respect to the approved Schedule, the organization must collect the amounts due from businesses (the "contributions"), and remit these amounts in trust to RECYC-QUÉBEC.

The organization also encourages innovation and sharing of best practices in order to optimize the recyclable materials value chain. To do so, it cooperates with businesses to reduce quantities of materials at the source and encourage the use of recyclable materials, and, with municipalities and other stakeholders to increase recycling and the economic value of recovered materials.

Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Temporary Funds

These funds is comprised of the Temporary Fund - Print Matter and the Temporary Fund - Containers and Packaging. They are related to the Schedule adjustment clause, include the amounts received beyond the estimated amount of the Schedule for the years not yet expired. These amounts are cumulated in a fund until the expiration of the delay of the Schedule. They are then redistributed to the contributors or transferred to the permanent fund depending on the category of materials and pursuant to the regulation.

Permanent Funds

These funds, which represent the organization's permanent resources, include the cumulated amounts in excess under the categories of printed matter, and containers and packaging after expiration of the delay of the Schedule's prescribed period.

Éco Entreprises Québec
Notes to Financial Statements
(In thousands of dollars for tables only)

December 31, 2018

Internally Restricted Funds

The organization has five internally restricted funds: the support fund, the risk fund, the working capital fund, the studies and projects fund and the restricted fund - other.

The support fund is designed to provide for operating activities (rent, salaries and other administrative expenses) over two months.

The risk fund allows compensating a potential underestimation of estimated net costs used for determining the next Schedules. This fund also allows stabilizing rates of the contribution tables.

The working capital fund covers for delays in the approval and collection of the Schedules.

The studies and projects fund covers costs related to the Schedule development and the curbside recycling optimization.

The restricted fund - other is designed to finance defense, recovery and other expenses.

Revenue Recognition

The organization uses the deferral method to recognize contributions.

Contributions are recognized in the financial statements based on accrual accounting, and when collection is reasonably assured.

Revenues are determined according to the annual Schedule authorized by the Government of Québec. Contributions charged to businesses are based on the estimated net costs to be paid to municipalities.

During the year ended December 31, 2018, the 2018 Schedule came into effect and targeted companies that market "containers and packaging" and "printed matters" in Québec filed their reports based on the quantity of materials for the year 2017. With respect to targeted companies that did not file a report, management has estimated contributions for the 2018 Schedule as at December 31, 2018 by applying the *Environment Quality Act* as well as the *Regulation respecting compensation for municipal services provided to recover and reclaim residual materials*. By nature, these estimates are subject to measurement uncertainty and the effect of any changes in future years on estimates made during the year could require significant changes in the financial statements.

Éco Entreprises Québec
Notes to Financial Statements
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With respect to corporate contributions under the Schedules for 2017 and previous years, the organization recognized corporate contributions when the targeted company met its reporting obligation based on quantity of materials relative to the said period and applicable Schedule. Any changes to previous Schedules will be recorded in the year the change occurs.

Corporate contributions for a subsequent period are presented in the statement of financial position as excess contributions applied against future contributions.

The organization charges interest, administrative fees and penalties to targeted companies that did not fulfil their reporting and payment obligations within the deadlines prescribed by the Schedule of contribution. Interests charged follow the Government rates, and interest charged on administrative costs and penalties are that of the applicable Schedule rules.

Interest income on temporary investments is generated through investments made in bonds and term deposits during the period. These investments bear fixed issuance and maturity dates as well as a guaranteed annual interest rate. Interest income is recognized on the accrual basis of accounting.

Municipal Compensation

The municipal compensation is accounted for in the financial statements following the accrual basis of accounting. The compensation shall be recognized if there is an obligation towards municipalities' representatives according to the *Regulation respecting the compensation for municipal services provided*.

The municipal compensation is based on cost of services provided by municipalities during a year and related to materials or categories of materials subject to compensation, such as the cost of curbside recycling, transportation, sorting and conditioning, including fees related to compensate for management of these services. The compensation amount is determined annually by RECYC-QUÉBEC. For the 2018 Schedule, the net costs reported for 2017 are those that will be paid to RECYC-QUÉBEC.

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December 31, 2018

Financial Instruments

Measurement

The organization initially measures its financial assets and liabilities at fair value.

Subsequently, it evaluates all financial assets and liabilities at amortized cost.

Financial assets measured at amortized cost consist of cash, temporary investments and accounts receivable.

Financial liabilities measured at amortized cost consist of accounts payable and amounts due to RECYC-QUÉBEC.

Impairment

Financial assets measured at amortization cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in the statement of income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of income.

Transaction Costs

The organization recognizes its transaction costs for financial instruments at fair value in the statement of income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Cash and Cash Equivalents

In regards to the presentation of cash and cash equivalents, the organization's policy is to include cash, bank balances and bank overdrafts, when balances often change from overdraft to available cash, as well as investments in money markets that mature no more than three months after acquisition date.

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Capital Assets	<p>Capital assets are recorded at cost less accumulated amortization. Amortization is calculated as to allocate cost over the estimated useful lives using the following methods:</p> <table><tr><td>Computer equipment</td><td>3 years straight-line</td></tr><tr><td>Office furniture</td><td>3 years straight-line</td></tr><tr><td>Leasehold improvements</td><td>Term of the lease (straight-line)</td></tr></table>	Computer equipment	3 years straight-line	Office furniture	3 years straight-line	Leasehold improvements	Term of the lease (straight-line)
Computer equipment	3 years straight-line						
Office furniture	3 years straight-line						
Leasehold improvements	Term of the lease (straight-line)						
Intangible Assets	<p>The computerized reporting system and other software are recorded at cost and amortized over their useful life on a straight-line basis over a three-year period. Development costs are capitalized as incurred and if they meet the capitalization criteria.</p>						
Impairment of Long-lived assets	<p>When a long-lived asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of income.</p>						
Lease Inducements	<p>Deferred lease inducements are recorded on a straight-line basis over the initial lease duration.</p>						
Use of Estimates	<p>The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These financial statements include material estimates with respect to contributions for the 2018 Schedule and the assessment of the provision for uncollectible contributions. Actual results could differ from management's best estimates as additional information becomes available.</p>						

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2. Temporary Investments

At year-end, the organization had temporary investments consisting in redeemable term deposits. The market value of the term deposits is equal to cost.

	2018	2017
Redeemable term deposits	\$ 51,218	\$ 142,394

Redeemable term deposits bear interest at rates ranging from 1.17 % to 2.20 % maturing between August 2019 and December 2019 (2017 - interest rates ranging from 1.25 % to 4.25 %, maturing between July 2018 and December 2018). Some annually redeemable term deposits bear graduated return rates and mature between 2019 and 2023.

3. Accounts Receivable

	2018	2017
Corporate contributions receivable - 2018 Schedule	\$ 25,610	\$ -
Corporate contributions receivable - 2017 Schedule	3,391	31,277
Corporate contributions receivable - Previous schedules	4,941	6,079
Adjustments and credits - Previous schedules	(730)	(450)
Accounts receivable - other	838	518
Provision for uncollectable contributions - 2018 Schedule (2017 - 2017 Schedule)	(2,717)	(2,723)
Provision for uncollectable contributions (Previous schedules)	(6,557)	(5,574)
Financial aid receivable	-	805
	\$ 24,776	\$ 29,932

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4. Capital Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 937	\$ 767	\$ 873	\$ 677
Office furniture	399	297	302	302
Leasehold improvements	591	121	84	84
	\$ 1,927	\$ 1,185	\$ 1,259	\$ 1,063
Net book value		\$ 742		\$ 196

During the year, the organization recorded amortization expense on capital assets for \$122,598 (2017 - \$74,471) which is included in administration costs on the statement of income.

5. Intangible Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computerized reporting system and other software	\$ 1,454	\$ 1,373	\$ 1,427	\$ 1,293
Net book value		\$ 81		\$ 134

During the year, the organization recorded amortization expense on intangible assets for \$80,186 (2017 - \$99,142) which is included in administration costs on the statement of income.

6. Bank Loan

The organization has a line of credit of \$850,000 (2017 - a line of credit of \$850,000), which is renewable annually. The line of credit is payable on demand and bears interest at prime plus 1.5% per annum. As at December 31, 2018 the organization had not used its line of credit (2017 - \$Nil).

The line of credit is secured by a term deposit in the amount of \$850,000.

Éco Entreprises Québec
Notes to Financial Statements
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7. Due to RECYC-QUÉBEC

For each related period, under the terms of the certification delivered initially in June 2005 by RECYC-QUÉBEC and renewed in February 2012 and December 2016 (for 2017 to 2019), and pursuant to the *Environment Quality Act*, the organization must deposit the amount for future payments of municipal compensation in trust with RECYC-QUÉBEC.

The amount payable to RECYC-QUÉBEC includes the compensation payable to municipalities and the allowance for the 2018 Schedule (2017 - for the 2017 Schedule). As at December 31, 2018, the balance payable is \$109,120,466 (2017 - \$136,521,626).

8. Accounts Payable

	<u>2018</u>	<u>2017</u>
Trade accounts payable and accrued liabilities	\$ 5,645	\$ 5,478
Salaries, bonuses, benefits and vacations	347	287
Lease inducements - Short-term portion	58	8
	<u>\$ 6,050</u>	<u>\$ 5,773</u>

9. Commitments Payable

As at December 31, 2018, the organization had approved, but not yet paid, a financial aid of \$162,488 (2017 - \$929,660) for the Away-from-Home Recovery Program.

Éco Entreprises Québec
Notes to Financial Statements
(In thousands of dollars for tables only)

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10. Deferred Contributions - Programs

During the current year, changes made to the deferred contributions balances were as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ -	\$ 67
Amount received	1,400	-
Variation to the deferred contributions receivable	(806)	(195)
Less : amount recognized as revenue during the year	98	128
	<hr/>	<hr/>
Balance, end of year	\$ 692	\$ -

An amount of (\$195,594) (2017 - (\$410,989)) related to the program expenses is included in curbside recycling optimization expenses on the statement of income.

11. Corporate contributions - Schedules

The corporate contributions for each Schedule are as follows:

	<u>2018</u>	<u>2017</u>
2018 Schedule	\$ 144,015	\$ -
2017 Schedule	792	150,513
Previous Schedules	2,095	1,320
	<hr/>	<hr/>
	\$ 146,902	\$ 151,833

12. Other Revenue

	<u>2018</u>	<u>2017</u>
Interest income on temporary investments	\$ 935	\$ 956
Penalty income and administration fees on corporate contributions	551	523
Interest income on corporate contributions	497	490
Contributions - Programs (Note 10)	(98)	(119)
Other revenue	6	155
	<hr/>	<hr/>
	\$ 1,891	\$ 2,005

Éco Entreprises Québec
Notes to Financial Statements
(In thousands of dollars for tables only)

December 31, 2018

13. Funds and internal Restrictions

The following table shows the temporary and permanent funds under the categories of printed matter and containers and packaging.

	Temporary Funds		Permanent Funds	
	Printed Matter	Containers and Packaging	Printed Matter	Containers and Packaging
Balance as at January 1, 2017	\$ (1,717)	\$ 1,930	\$ 8,334	\$ 8,202
Allocation (2014 Schedule)	2,359	825	(2,359)	(825)
Excess (deficiency) of revenue over expenses for the year	(580)	6,090	398	(4,931)
Internal restrictions	-	-	(1,500)	1,100
Balance as at December 31, 2017	62	8,845	4,873	3,546
Excess (deficiency) of revenue over expenses for the year	(492)	4,446	11	(1,845)
Internal restrictions	-	-	-	1,800
Balance per category	\$ (430)	\$ 13,291	\$ 4,884	\$ 3,501
Total as at December 31, 2018		\$ 12,861		\$ 8,385

During the year, the organization has bound an Internal restriction in the amount of \$1,180,000 (2017 - \$3,815,000) to the Internally Restricted Funds and \$1,800,000 (2017 - \$1,100,000) to the Permanent Funds.

In 2018, the organization has also bound a restriction in the amount of \$Nil (2017 - \$1,500,000) to the Internally Restricted Funds from the Permanent Funds.

Éco Entreprises Québec
Notes to Financial Statements
(In thousands of dollars for tables only)

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14. Contractual Obligations

The organization's commitments relating to the operating lease contracts and the other contractual obligations are as follows:

a) Operating Leases

The organization's commitment under office space and equipment leases total \$686,385 and mature between January 2019 and November 2023.

The payments for the next five years with respect to the contractual obligations are as follows:

2019	\$	191
2020		182
2021		188
2022		123
2023		<u>2</u>
	\$	<u>686</u>

These operating leases include leases over a 5 year term for office space, expiring in August 2022, which include additional fees for building rental based on a percentage increase of property taxes and certain operating costs, and one renewal option of an additional five-year period.

b) Contracts for Professional Services

The organization has commitments for professional services totaling approximately \$579,421 maturing in December 2020.

The payments for the next two years in respect to the contractual obligations are as follows:

2019	\$	414
2020		<u>165</u>
	\$	<u>579</u>

Éco Entreprises Québec
Notes to Financial Statements
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December 31, 2018

15. Financial Instruments

Management Risk

The organization has exposure to interest rate risk, credit risk and liquidity risk related to its financial assets and liabilities. Generally, management is responsible for establishing and obtaining approval for its risk management policies. Management performs continuous risk evaluations to ensure all inherent significant risks to the organization and its operations are reviewed and assessed as to consider market conditions and operations. During the year, there have been no significant changes to the organization's policies in connection with risk management.

Interest Rate Risk

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument fluctuates due to market changes in interest rates. The organization manages its temporary investments based on its cash flow requirements, and on realizing optimal interest income. The organization has exposure to an interest rate risk related to cash and temporary investments.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The organization has exposure to a credit risk related to its accounts receivable should there be default from one of its businesses. The organization monitors and assesses such risk regularly. The organization has established a provision for uncollectible contributions in order to cover for bad debt. The credit concentration of receivables is rather limited because of the wide range and number of businesses. The organization also has exposure to credit risk related to cash and temporary investments. The organization minimizes its credit risk related to cash and temporary investments by making deposits solely with reputable financial institutions.

Liquidity Risk

Liquidity risk is the risk that the organization will encounter difficulty meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that due to liquidity requirements, the organization has insufficient funds to settle a transaction at maturity, is forced to sell financial assets for lower than their actual value, or is unable to settle or recover a financial asset. The liquidity risk results from accounts payable and amounts due to RECYC-QUÉBEC. The organization minimizes its liquidity risk through regular monitoring of its cash flows and through strict management of its various restricted funds.

Éco Entreprises Québec
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16. Contingencies

- a) Over the past years, a company challenging its liability with respect to the *Environment Quality Act* (EQA) has initiated an action against the organization for 10.1 million dollars, plus interest, expert costs and other expenses. Shall the argument be rejected by the court, the company will challenge the applicability of orders in Council and deem them invalid. Currently, it is impossible to evaluate the likelihood of the motion's admissibility as well as the amount, if any, the organization would have to pay. Consequently, no provision was recorded in these financial statements.

- b) In 2012, a group comprising of four companies initiated an action against the organization for 9.1 million dollars, plus expert costs and other expenses. The group is challenging certain provisions of the EQA, the *Regulation respecting compensation for municipal services provided to recover and reclaim residual materials* and the validity of the Schedule order in Council for 2010-2012 contributions. Currently, it is impossible to evaluate the likelihood of the motion's admissibility as well as the amount, if any, the organization would have to pay. Consequently, no provision was recorded in these financial statements.

17. Comparative Figures

Some comparative figures have been reclassified in order to facilitate comparison with those of the current year.
